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SUBJECT: MADRID WEEKLY ECON/COMMERCIAL UPDATE MAY 26 - MAY 30

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INFLATION CLIMBS TO 4.7 PERCENT

[1](#)1. (U) The official estimate for May consumer price inflation reached 4.7%, the highest rate since the index began in 1997. Separately, April's industrial price index was 7.2% above its April 2006 level, the highest inflation rate since mid-1995. Increases in the prices of oil and to a lesser extent food were responsible. (El Confidencial, 5/28; El Pais, 5/27)

MORE BAD NEWS ON SALES, HOUSING

[1](#)2. (U) Retail sales in April were 3.4 percent below their April 2007 level, the fifth consecutive negative month. Housing continues to be hard-hit, with the number of housing sales and the number of mortgages issued down almost 40 percent from their 2007 levels. In the year's first quarter, almost 60% fewer construction permits for new housing were issued than a year ago. (El Pais, 5/30)

GOVERNMENT SAYS NO 2008 BUDGET SURPLUS

[1](#)3. (U) The Ministry of Economy and Finance conceded for the first time on May 27 that Spain will not have a budget surplus in 2008, largely because tax receipts are down for the first time in 15 years. During the first four months of 2008, tax receipts were down by 5.2 percent compared with the first four months of 2007. Value Added Tax collection reductions are down most. Additionally, high oil prices are deterring consumers and companies from using petroleum products, thus lowering tax receipts on oil consumption. Social Security contributions are still strong, and they may, in fact, be responsible for the government's consolidated budget (central government, local government and social security) not incurring a deficit. The budget had a slight surplus for the first four months of the year, but the Ministry now expects no surplus or deficit for the year as a whole. (Comment: Clearly, the Spanish economy is slowing down much faster than many observers thought it would,

although it is still not clear that Spain will technically enter a recession. The tighter budget environment is likely to lead to political tension over autonomous community funding issues.) (El Pais, 5/28)

CAPITAL MARKETS CONTINUE OPENING TO MAJOR FIRMS

14. (U) Spain's second largest bank, BBVA, issued 5 billion euros in mortgage-backed bonds. The country's largest company, Telefonica, issued 1.25 billion euros in five-year bonds at 5.58%, a spread of 94 basis points. (El Confidencial, 5/27)

LA CAIXA ALLIANCE WITH CARLOS SLIM TO ENTER U.S., AMERICAS

15. (U) Criteria CaixaCorp (La Caixa savings bank's investment holding company) is buying 20 percent of Carlos Slim's Grupo Financiero Inbursa for euros 1.5 billion. Slim will still control the Group after this purchase, but La Caixa appears to have decided to conclude a strategic alliance with the Slim family, and it seems that they are doing so as equals. The idea is for La Caixa to use the participation in Inbursa to make investments in the U.S. and elsewhere in the Americas. Inbursa manages USD 170 billion and is specialized in corporate banking, asset custody, and pension fund management. La Caixa has expertise in retail banking, of which Inbursa might avail itself to make inroads in the American market. Reportedly, La Caixa has also left the door open for Slim to buy a stake in Criteria CaixaCorp if he decides he wants to enter the Spanish market. (Comment: BBVA and Santander have used their strong Mexican bases from which to invest in the U.S., and La Caixa appears to be emulating this strategy.) (El Pais, 5/27)

ACS CEO SAYS IBERDROLA-GAS NATURAL MERGER WOULD CREATE

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"NATIONAL CHAMPION"

16. (U) Gas Natural already tried to take over Iberdrola in 2000 and 2003, but its efforts were thwarted. ACS owns 7.3% of Iberdrola, but Iberdrola's CEO, Ignacio Sanchez-Galan, has succeeded in limiting ACS' influence in Iberdrola decision making. Sanchez-Galan is not enthusiastic about merging with Gas Natural or about being bought by France's EDF, which is another widely commented upon possibility. However, he has indicated that his posture depends on what price is offered. (Comment: Speculation about energy mergers in Spain is something of a business-political parlor game. There does, however, appear to be a consensus that consolidation will happen sooner or later in the Spanish energy sector.) (El Pais, 5/27)

RAINS DIMINISH DROUGHT CONCERNS

17. (U) A wetter-than-usual May, with rains in many areas of the country nearly every day of the last two weeks, has reduced drought concerns. A national meteorological agency spokesman said that the country's rain deficit had gone from 40 percent on April 1 to 14 percent on May 28. The deficit likely has been reduced below that level by continuing rains in the next few days. The GOS is reported to be considering abandoning its plan to pipe water from other regions to Barcelona. (20 Minutos, 5/29; TVE, 5/30)

WORLD WIDE WEB CONSORTIUM (W3C) TO MEET IN MADRID IN 2009

18. (U) The April 20-24 meeting will bring together over 2,000 developers, researchers and programmers to discuss ways to make the internet more efficient for business, learning and entertainment. (Comment: Embassy will explore how this event can be leveraged to demonstrate that a flourishing internet business is consistent with respect for intellectual property rights.) (El Pais, 5/28; W3C website.) Aguirre